

# Asia Pacific Resources Ltd.

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Potash is the term used for the group of potassium salts and commercial products produced from them.

Potassium is an essential plant nutrient for which there is no substitute.

Potash promotes root growth in plants and assists absorption of minerals and other important elements.

A major potash discovery with gross resources of about 1.5 billion tonnes of sylvinite has been made in Thailand.

Asia Pacific Resources Ltd. is leading the development of a major potash industry strategically located in the key regional markets of China and southeast Asia.

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## President's Report to Shareholders

Once again, I am pleased to report upon another very successful year for your Company. Indeed, the past year has been a landmark year for Asia Pacific Resources Ltd., with the completion of a major three year exploration program at the Udon Thani project and commencement of Feasibility Studies for an initial potash mine in northeast Thailand.

Asia Pacific has also made significant progress in the areas of corporate development by gaining a listing on the NASDAQ stock exchange in New York. The Company is now listed in Toronto, New York, Stuttgart and Vancouver to better serve our North American and overseas shareholders.

The Company also maintains a very healthy treasury, boosted by the exercise of stock purchase warrants associated with the private placement financing of 1994 and 1995. The Company is fully funded to meet all programs currently underway, as well as those planned for 1996/97. Your Board of Directors does not envisage any further financing requirements prior to a production decision for the initial Udon Thani Mine being taken.



Dr. G. D. Wright with Thai  
Minister of Industry, Mr. Chiwat.

The success of Asia Pacific is, of course, a reflection of the success of the Udon Thani potash project. During the past three years more than one hundred exploration drillholes have been completed together with some 350 km of reflection seismic survey. Other field programs have included, geotechnical, geohydrology, preliminary ore processing and transportation studies. As a result, a major high grade sylvinite resource has been identified in northeast Thailand. Two significant potash fields have been discovered, the Somboon field, location of the initial potash discovery, and the Udon field, some six kilometres north of Somboon.

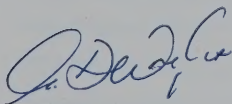
The Somboon field is now estimated to contain some 325 million tonnes of potash, with a preliminary mineable reserve estimated at about 150 million tonnes. Such a tonnage could support a production level of 2 million tonnes per annum for about 25 years. The Udon

deposit is preliminarily estimated at about one billion tonnes, and a preliminary mineable reserve will be estimated when drillhole assays for the area are completed. To date, about 30% of the 2,333 square kilometres concession area has been investigated. Ongoing programs will evaluate the potential of the untested areas and develop further reserves.

The resource identified to date represents a major new source of supply to the Asian potash market. The potash ore is high grade, located at shallow depth and amenable to high production mining using the most modern methods. The Interim Feasibility Report for the initial mine is scheduled for completion in late July, 1996 with the Final Report scheduled for completion during the first quarter of 1997. The potential for additional mines clearly exists at Udon Thani and such expansion of production will be driven by increasing demand in the Asian region over the next decade. The continued success of the Udon Thani field programs has led to increasing recognition of Asia Pacific within the fertilizer industry and is reflected in the continual market capital appreciation of the company.

Asia Pacific looks forward to completion of the project Feasibility Study and the decision to proceed with the initial potash mine at Udon Thani. The ongoing process to identify a compatible industry partner to join with ourselves and our Thai partner, the Metro Group, in the development and operation of this project, should be completed by the end of 1996, and it is anticipated that the mine may be commissioned by late 1999.

In closing, may I thank all those involved with the development of the Company, in Canada and in Thailand. Your Board of Directors appreciates the continued support of our shareholders and looks forward to the continuing success of Asia Pacific Resources Ltd.

A handwritten signature in blue ink, appearing to read "G. D. Wright", is positioned to the left of the printed name.

Gerald D. Wright  
President & C.E.O.

# Introduction

The need to feed the world's growing population, expanding at a rate of some 85 million people each year, from a shrinking arable land base, places ever increasing demands for improving agricultural yields from cultivated land.

In Asia, the additional demands for higher-calorie and higher protein diets supplied by more varied and higher quality food products places even greater importance upon increasing agricultural yields. The necessity for the improvement of soil fertility in the region can be met by balancing the supply of the three essential plant nutrients of phosphorous, nitrogen and potassium and by expanding the use of manufactured fertilizers.

Potassium is an essential plant nutrient for which there is no known substitute. The term potash is used for the group of potassium salts and their by-products used as fertilizers. These salts promote root growth in plants and assist their absorption of minerals and other important elements. Potash is consumed almost exclusively (95%) as fertilizer, with a small quantity (5%) of production used for certain industrial applications such as the ceramics and glass industries.



Asia has developed into the fastest growing and most important potash consuming region in the world. The lack of any significant potash production in the region means that it is almost entirely reliant upon imported supplies, mainly from Canada and the former Soviet Union (FSU). As a result, the region is generally deficient in its use of potash compared with nitrogen and phosphorous. It is important for the regions' agricultural industry to move toward more optimal rates of potash application if it is to achieve the goals of agricultural self-sufficiency and better dietary options for its populace.

While overall demand for manufactured fertilizers is steadily growing, the demand for potash is growing at a faster rate than is the demand for nitrogen or phosphorous fertilizers. The significance of a major source of potash within the region is very apparent, and the development of a potash mine in Thailand has tremendous positive implications for the region's agricultural industry.



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## ASIA HAS DEVELOPED INTO THE FASTEST GROWING AND MOST IMPORTANT POTASH CONSUMING REGION IN THE WORLD.

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Asia Pacific Resources Ltd., through its majority equity interest in Asia Pacific Potash Corporation, holder of the Udon Thani potash concession, intends to be at the forefront of the establishment of a Thai potash mining industry. The potential for an annual production of several million tonnes of potash is now well demonstrated by the extensive exploration programs completed to date. An Interim Feasibility Study for an initial two million tonne per annum (t.p.a.) mine in northeast Thailand has now been completed, demonstrating the technical and economic feasibility of such a mine within the Somboon area.

The extent of the resource currently being delineated within the concession area clearly demonstrates the potential for construction of additional mines in the area. Such mines would be developed to meet continuing increases in regional demand.

## Asia Pacific Potash Corp.

Asia Pacific Potash Corp. (APPC) is a Thai registered company which holds the Udon Thani Potash concession in northeast Thailand. The concession was granted in October, 1984. The shareholders of APPC include Asia Pacific Resources Ltd. which holds a 62.5% equity interest, Metro Resources Ltd., which holds 27.5% and the Government of the Kingdom of Thailand which holds the remaining 10%. Asia Pacific Resources Ltd. is the Project Operator for the Udon Thani potash project. Offices are maintained by APPC in both Bangkok and Udon Thani.

Asia Pacific Resources Ltd. made application to the Government of the Kingdom of Thailand to maintain a project interest in excess of the 50% foreign equity position permitted by the Minerals Act. Cabinet approval was granted, and a Supplementary Agreement executed in September, 1995.



Official signing ceremony for Supplementary Concession Agreement, September 1995, Bangkok.

The concession agreement confers on APPC the exclusive rights to explore for, produce and market potash minerals from the area. The exploration area held by APPC is subject to reduction in size in accordance with the agreement. It is intended that, after a five year exploration period, an area of up to 875 square kilometres be retained under formal Exploration Licenses. The agreement states the Government shall take all necessary steps to cause such licenses to be granted.

Once APPC decides to commence development of a commercial mining operation, it will submit a formal application for a Mining Lease granting all rights and privileges necessary to enable the company to develop, construct, operate and maintain a commercial mining facility. A Mining Lease may be issued for each Mining Area under application. The term of each Mining Lease shall be 25 years. APPC may request 25 year extensions to such leases.

# Udon Thani Concession Area

APPC's potash concession is located around the main supply and services centre of Udon Thani in northeast Thailand and encompasses some 2,333 square kilometres in the southwestern portion of the Sakon Nakhon sub-basin of the Khorat Plateau. Udon Thani is located some 500 km from the Thai capital of Bangkok and about 50 km south of the Mekong River which forms the border between Thailand and Laos.

The area is relatively flat and at an elevation of about 200 metres above mean sea level. Surface drainage is northward to the Mekong River, and the area comprises low grade agricultural land with crops typically including rice or sugar cane. Soils are quite saline due to the presence of underlying salt strata.

The climate comprises two well defined seasons, wet between May and October and dry for the balance of the year. Overall rainfall is significantly less than most parts of Thailand, typically about 1,425 millimetres per annum, with an annual average of 119 rain days.

The concession area overlies the western third of the Sakon Nakhon sedimentary sub-basin of late Triassic to Cretaceous age. The total thickness of rocks in the basin is over 3,000 metres, and three cycles of evaporite deposition occur in the upper 400 metres, resulting in repetitions of red claystones and siltstones, halite and potash minerals. Chemically leached laterite soils up to four metres thick cover much of the surface area.



In ascending order, the evaporite units, known as the Maha Sarahkam formation, are a series of three thick salt beds, up to 150 metres thick, separated by claystone aquitards. The lower most of these salt beds, known as the Lower Salt, contains the potash mineralization in the form of sylvinite underlain by carnallite at depths ranging from 250 to 350 metres beneath the surface.

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UDON THANI IS A MODERN THAI CITY  
WITH GOOD WATER AND ELECTRICAL SUPPLIES,  
EXCELLENT AIRPORT FACILITIES AND  
COMMUNICATION SYSTEMS.

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The sylvinite zone in the Somboon field contains interstitial halite and varies in thickness up to about 12 metres. Separating this from the underlying carnallite zone is a halite layer typically one metre thick, but locally absent. The underlying carnallite section is relatively clean and quite massive. It is generally 30 metres , or more, thick.

Basic infrastructure in the project area is excellent. The area has direct rail and road links to Bangkok and the deep sea export port at Map Ta Phut, as well as throughout the Malaysian peninsula to Singapore. Additionally, future rail links are proposed for both China and Vietnam, through Laos. Udon Thani is a modern Thai city with good water and electrical supplies, excellent airport facilities and communication systems.

## Investment Promotion Act (1977)

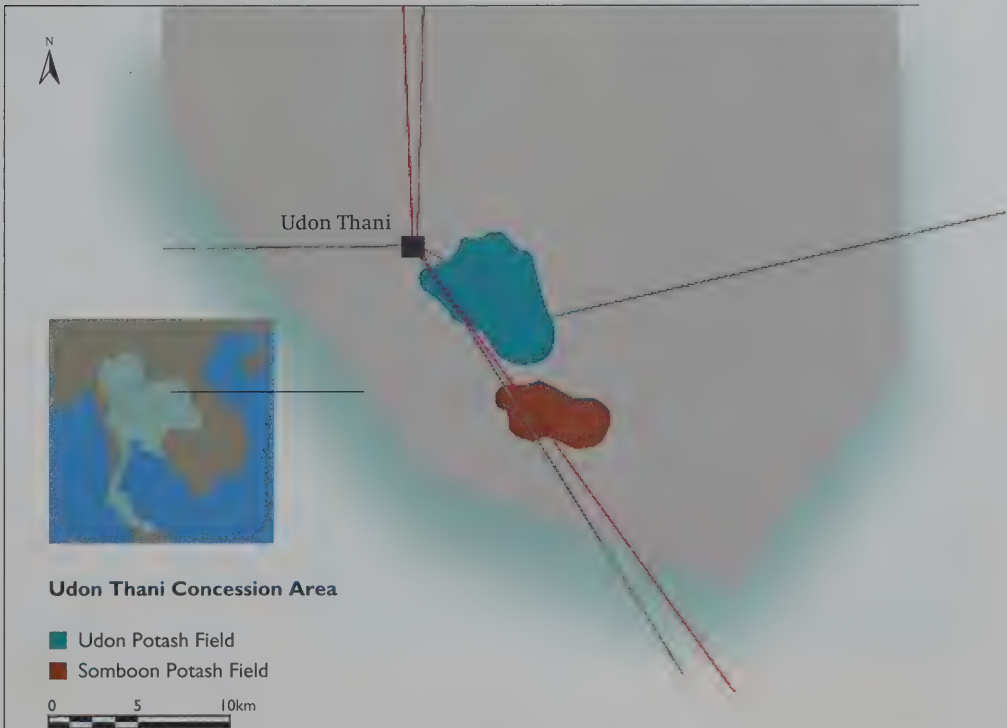
In 1977, the Government of the Kingdom of Thailand established the Investment Promotion Act to provide economic incentives for foreign investment. The Act is administered by the office of the Board of Investment who may, under certain conditions, approve the promotion of investments in a number of industries, including mining and fertilizer production. The conditions relate to the project's impact upon the nation's economic and social development as well as technical and environmental issues.

For investment promotion purposes, Thailand is divided into three zones. Zone I is the greater Bangkok area, Zone II and III comprise the rest of Thailand, with Zone III

encompassing the more remote and poorer parts of the country. Incentives vary from zone to zone, with Zone III attracting the largest incentive package. The province of Udon Thani is within Zone III and, upon receiving Board of Investment approval, the Udon Thani project would receive a variety of tax incentives including corporate income tax exemption for eight years, reduction of corporate income tax by 50% for five years after the exemption period and double deduction from taxable income of water, electricity and transportation costs for ten years from the date of first potash sales. The normal corporate tax rate, in Thailand, is 30% of net profits. Other tax and duty free provisions are included within the Board of Investment incentives.

## Project Development

The early indications of potash resources in the Sakon Nakhon basin resulted from limited drilling programs carried out by the Thai Department of Mineral Resources in the early 1980s. APPC's exploration and development programs commenced in mid-1993, and an extensive three year exploration phase has been completed in the areas to the south and east of Udon Thani, resulting in the delineation of the adjacent potash fields now known as the Somboon and Udon fields.

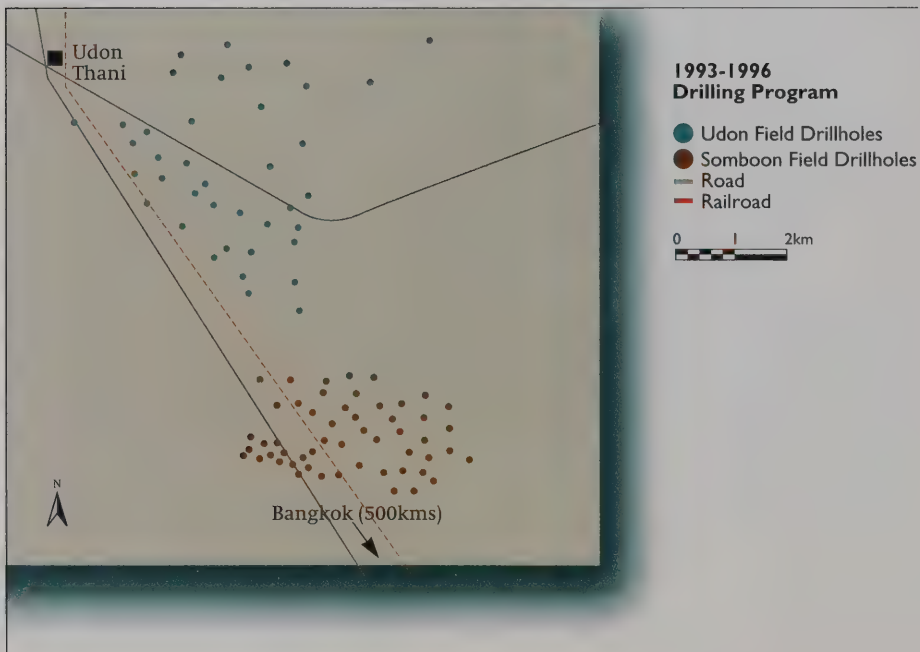


## EXPLORATION AND DEVELOPMENT PROGRAMS

The initial APPC potash discovery was made in the area about 20 km south of Udon Thani during the 1993 diamond drilling program. Step out drilling progressed eastwards during 1994 and 1995 and this defined a sylvinite resource of some 30 square km in this area of the concession. A total of 55 diamond drillholes have now been completed to define the northern and western extensions of this, the Somboon field. Limited extension of the Somboon deposit to the south and east remains possible.

During 1995 and 1996, diamond drilling programs continued to the north of the Somboon field, and east of the city of Udon Thani. About 40 drillholes have been drilled in this area and three further sylvinite occurrences have been identified. Collectively, these deposits are known as the Udon field. A small-scale initial reconnaissance drilling program was also completed to the northwest of Udon Thani. Results from this program were inconclusive.

Coincident with the drilling programs, a program of two-dimensional seismic reflection surveys was conducted, resulting in some 350 km of seismic lines being run. These surveys were performed by Geocon Co. Ltd. of Thailand, processed by Velseis Processing Pty. of Australia, and interpreted by Frontier Geosciences Ltd. of Vancouver, BC. The seismic interpretations are the primary means of assessing "mineability" used in the study.



Aztec Drilling Co. of Thailand, performed the diamond drilling programs as well as hydrogeological drilling and testing programs. Such programs led to the conclusion that the flooding hazard for a potash mine has a low overall risk.

Aztec also completed four inch and eight inch diameter drillholes to provide bulk samples, up to 250 kg of ore , from both the Udon and Somboon fields. These will be used in detailed processing tests to confirm the feasibility of flotation and electrostatic processing techniques. Preliminary ore processing indicated that both techniques may be applicable for ore from each field.

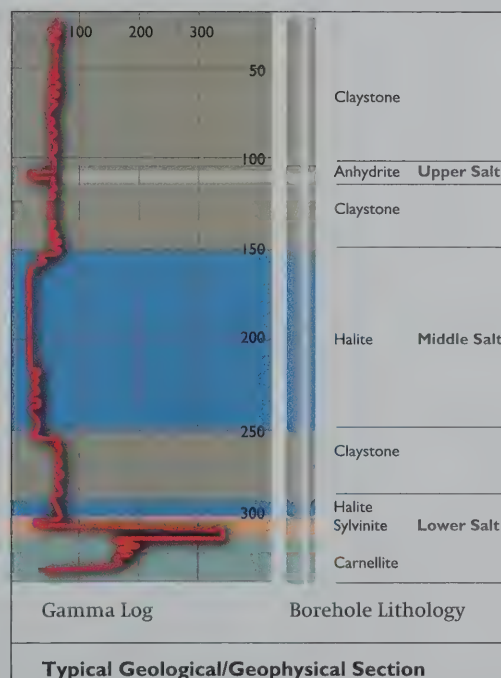
Core samples were also taken to complete geotechnical programs to confirm parameters for soil and rock mechanics studies as part of the formal mining design for the initial potash mine.

## RESOURCE EVALUATION TO DATE

A mineable resource has now been established for the Somboon field, although one has not yet been completed for the Udon field.

For Somboon, ore grade and tonnage calculations have been made on the basis of composite assays based upon assayed ore grade and thickness of intersection. Grade and thickness was assigned to areas around particular drillholes, to distances of 500 metres and 750 metres, and polygonal analysis used to calculate in-situ Mineral Resource tonnage. Measured and indicated tonnage for the Somboon field was estimated to be about 330 million tonnes of potash grading about 20% potassium oxide ( $K_2O$ ). The continuity of the resource was indicated by two geological markers which persisted between holes and demonstrated the lateral continuity of the potash depositional sequence.

Using a cut-off grade of 15%  $K_2O$ , and a minimum mining height of 1.8 metres, a Mineable Resource of some 205 million tonnes was calculated, at an average grade of 24%  $K_2O$ . A minimum cover (roof), above mine openings, of 1.5 metres was used. The actual tonnage and average grade which may be mined from this resource will depend upon the mining method adopted.



As assay results are not yet fully available for the Udon field, a mineable resource has not yet been calculated. However, a preliminary estimate of the global potash reserve in the area, without accounting for grade, has been made. It is about four times that of the Somboon field, totaling more than one billion tonnes.

#### ADDITIONAL RESOURCE POTENTIAL

In the identification of the Somboon and Udon fields, drilling and seismic programs examined about 30% of the concession area. The potential for additional potash resources within the balance of the concession is of great interest, and APPC will continue its exploration programs to develop these. It is believed that additional resources may be discovered to the east and north of the area previously explored.

APPC will commence a further \$5 million exploration program in the fall of 1996 to assess untested areas of the concession and to add to the present global resource of about 1.5 billion tonnes of potash.

## Review of the Potash Industry

The need for higher productivity in the agricultural sector is driven by three trends: population growth, economic growth and declining arable land areas.

The world's population has doubled during the past 40 years and is now estimated at between five and six billion people. Over the past ten years, population growth has averaged 85 million people per year; in other words, the equivalent to adding the total population of the United States every four years. Coupled with this, the world's economy is continually growing, bringing with it an increased demand for higher calorie and higher protein diets supplied by more varied and higher quality food products. At the same time, the world's agricultural land base is shrinking significantly, particularly in many Asian countries, due to urbanization, industrialization, erosion and salinization.

These factors mean that increased agricultural productivity from this shrinking land base is essential. The need to sustain and improve soil fertility can be met by balancing the supply of the three essential plant nutrients: nitrogen, phosphorous and potassium. Potassium, in the form of potash or potassium chloride (KCl), makes plants more resistant to pests, diseases and adverse weather conditions, thereby promoting higher crop yields. The consistent application of potash fertilizers can help to ensure optimum crop yields.

The Asian region is now the world's most important potash importer. However, the overall use of manufactured fertilizers still lags well behind the "agriculturally mature" regions of North America and Western Europe. This is even more marked in the case of potash

where, generally, fertilizer applications show a significant deficit in potash relative to phosphorous and nitrogen. For example, in North America and Western Europe the ratio of nitrogen (N) use to potash (K) is usually about 2.1 to 1, while worldwide the ratio is about 3.7:1. In Asia and Oceania this ratio is about 6:1. China historically has averaged an N:K ratio of about 8:1.

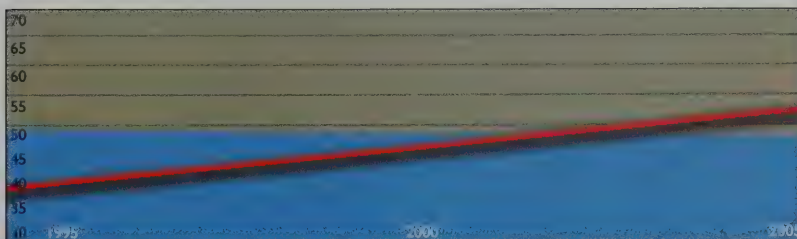
Not only does Asia have a growing demand for manufactured fertilizers, it has an even greater demand for potash to reach more optimal rates of application.

## POTASH SUPPLY AND DEMAND

After a five year demand decline, largely due to the collapse of the “centrally-planned” economies in the FSU and Eastern Europe and the removal of agricultural subsidies in certain Asian countries, world potash demand has recovered significantly during 1994 and 1995.

Continued steady growth worldwide is now predicted over the next decade, with the greatest demand increases occurring in eastern Europe, the FSU and, in particular, Asia. Estimates for overall growth in demand indicate an annual growth rate of about 3% worldwide, with predictions of almost double that rate for the Asian markets.

There are currently about 50 potash mines operating in 13 countries, with a total annual capacity of some 55 million tonnes of potassium chloride (Mt KCl). Over 85% of this capacity is based upon conventional underground potash mines. The major producing countries are Canada, Russia, Belarus and Germany. Total production of potash in 1995 is estimated at 39.2 Mt KCl.



### World Potash Supply Capability and Demand

- Projected Demand (Mt KCl)
- Production Capability (90% of rated capacity)

Overall capacity of the existing industry will change little during the next five years as a few small expansions planned will likely be offset by planned closures. However, after this time, the planned closure (by 2000) of the French mines as well as the probable decline in



production in New Mexico will remove about 2.0 Mt KCl from overall capacity for existing producers, reducing capacity to 53 Mt KCl. Also, IMC Canada's Esterhazy mines may lose capacity as a result of conversion to solution mining for a part of its operations. How much of this capacity can actually be used depends upon operating factors as well as infrastructure factors including transportation and port facilities at both export and import locations.

Considering that the Asian market now consumes 30% of world production, it is obvious that the region will have a profound effect upon potash demand over the next decade. Currently, the region consumes over 10.5 Mt KCl (1995 estimate), with China, India and Malaysia being the largest consumers. Most industry estimates indicate that annual demand in Asia and Oceania will increase by between 3.0 and 4.0 Mt KCl by the year 2000, an annual growth rate of around 5%, increasing demand to between 13.5 and 14.5 Mt KCl. If similar growth continued, demand by the year 2005 could be of the order of about 18 Mt KCl.

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## THE STRATEGIC LOCATION OF THE PROJECT GIVES APPC A TREMENDOUS ECONOMIC ADVANTAGE OVER TRADITIONAL SUPPLIERS TO THE REGION.

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However, this estimate may well be conservative. As previously mentioned, fertilizer applications in the region are deficient in potash when compared with other regions. This is particularly so in China and India which together account for about two-thirds of Asian consumption. The desire to improve N:K ratios in these countries has been publicly stated, and the impact upon potash demand of such a policy would be to increase demand even further.

While accepting that predictions of potash demand over a ten year period are difficult to make with accuracy, it is likely that existing installed capacity may just be sufficient to meet the requirements of the year 2000, but additional production capacity will be required to meet projected demand by the year 2005.

Although some additional capacity may be developed at existing production facilities, the impact upon total supply of potash is likely to be limited. In view of the projected deficit between supply and demand by the early years of the next century, the development of new sources of potash is essential and inevitable.

A variety of new projects have been advanced around the world. These include projects in Argentina, China, Oman, Egypt, Canada and Thailand. However, recent developments would indicate that the projects in Egypt, Argentina and Manitoba are dormant, while the Millstream project in New Brunswick is currently under evaluation. The proposed Omani project, at a capacity of about 200,000 t.p.a. KCl will have little effect even if it comes on stream, and therefore, proposed projects in China and Thailand offer the most practical way to meet the predicted deficit.

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## THE ABILITY TO PRODUCE SUBSTANTIALLY MORE THAN TWO MILLION TONNES PER ANNUM WILL BE A FOCUS OF APPC'S ONGOING ACTIVITIES.

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The Qinghai project, a Chinese - Israeli joint venture with a projected capacity of about 750,000 t.p.a. KCl, was scheduled to commence construction during 1996, but appears delayed for an unspecified period, pending financing.

Factors such as port and transportation facilities will also become more important considerations. The capability of such infrastructure within the expanding Asian market to handle increasing tonnages, would have significant effects upon Asia's ability to import and distribute its fertilizer requirements. Many of Asia's major ports, such as Shanghai, are experiencing severe congestion and require upgrading to increase the handling capacity as a matter of urgency. Increasing port handling capacities may be a lengthy and expensive exercise, with the alternative being the development of additional bulk cargo import facilities.

The importance of developing potash projects within the Asian region is, therefore, of prime importance, especially those which can offer direct land transportation to the major regional markets such as China and Malaysia. The Asian region currently produces less than 1% of its potash requirements.

It is believed that the Udon Thani project will enjoy much superior economic benefits in comparison to the other prospective projects previously mentioned, and an initial mine of two million tonnes per annum could be supported from about 20% of the “global” potash deposit

already identified by APPC. Such a mine would only supply a small portion of present regional demand, and the expected increase in demand will spur further development at Udon Thani. The ability to supply four or five million tonnes of potash to the regional markets, particularly China, Malaysia, Thailand and Indonesia will be the focus of APPC's ongoing studies.

The strategic location of the project, already serviced by railroad links throughout Thailand and also to Malaysia and Singapore, and the prospect of a link, in the near future, to southwest China, gives APPC a tremendous economic advantage over traditional suppliers to the region. The ability to service most of the target markets by overland transportation provides logistical advantages as well as enhancing the economic advantages.

Asia Pacific Resources Ltd. is committed to the early commencement of potash production at Udon Thani and, driven by regional demand into the next century, developing the optimum levels of production from the resources within its concession area.

	1993	1994	1995
Canada	6,850	8,182	9,005
FSU	4,686	5,112	5,730
Germany	2,860	3,286	3,300
United States	1,525	1,400	1,465
Israel	1,309	1,259	1,300
Jordan	822	930	1,060
France	890	87	820
Spain	661	684	650
United Kingdom	555	580	600
Brazil	173	242	225
China	60	90	90
Chile	35	52	65
<b>Total</b>	<b>20,407</b>	<b>22,667</b>	<b>24,310</b>

**World Potash Production 1993 - 1995**  
(000 tonnes)  
Source: Natural Resources Canada

## Project Feasibility Study

APPC has commissioned Golder Associates Ltd. and H.A. Simons Ltd., two of North America's foremost consulting engineering companies, to undertake project studies to assess the technical and economic feasibility of developing an initial two million tonnes per annum potash mine near Udon Thani. The study is divided into two phases, and the Phase I Report, dealing primarily with an initial mine in the Somboon area, has now been received by APPC.

The Phase II Report, which will constitute the Final Feasibility Report for the initial Somboon mine, is scheduled for completion during the first quarter of 1997. This phase will refine and advance studies completed in Phase I, and will also include a similar technical and economic assessment of constructing an initial mine in the Udon field area.

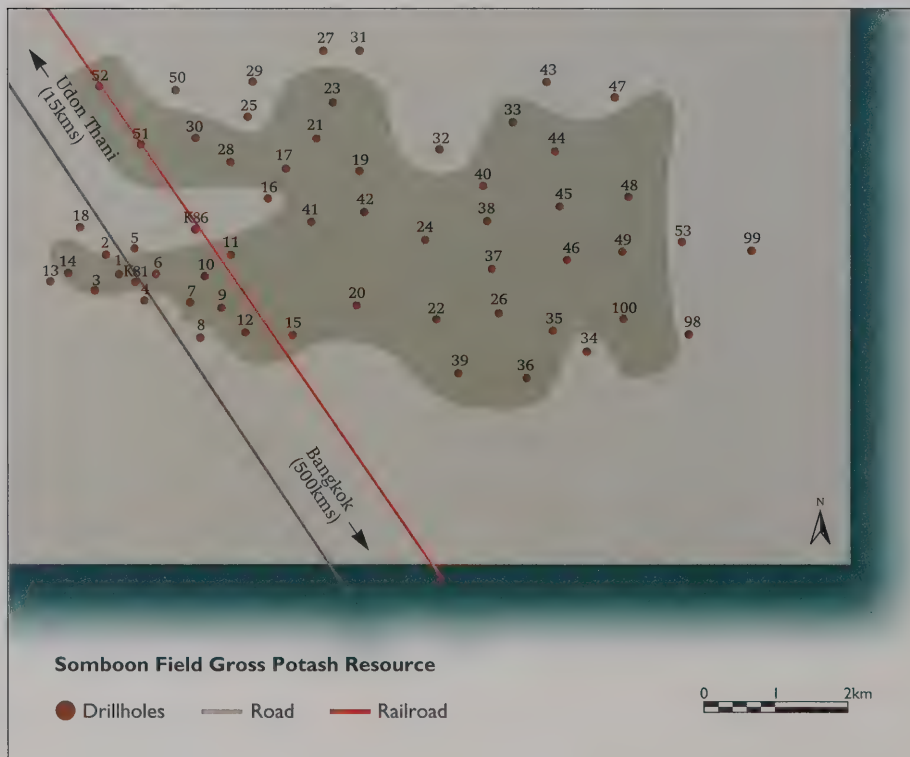
Obviously, given the magnitude of potash resources identified to date, and subject to regional demands, APPC believes that the potential clearly exists for more than one mine within the concession area. The ability to produce substantially more than two million tonnes per annum will be a focus of APPC's ongoing activities.

## RESULTS OF PHASE I STUDY

The Phase I feasibility study included an overall assessment of the geology and resource potential of the Somboon potash field and investigated the technical and economic feasibility of constructing the initial potash mine in this area. The study included a preliminary environmental assessment. Several possible mine sites, which offer low environmental sensitivity to probable mining impacts, were identified.

Various mining methods were assessed and a base case for the Somboon resource was adopted using continuous mining machines capable of cutting to a height of 3.8 metres and loading electric shuttle cars. Access from the surface by either shaft or decline was considered feasible and, given the shallow depth of the deposit, the operational advantages of declines are believed to make this the preferred method. It is proposed to excavate underground development, for ore body access, in the Middle Salt stratum some 70 metres above the ore zone to provide stable, long term roadways with low maintenance requirements.

Mining of the ore body would be based upon panels using small yield pillars for roof support within the panels and larger pillars between pillars. Conveyor belts will take ore from each panel through the development roadways to the surface.



Initial testing shows that the ore may be processed by conventional flotation techniques. Processing parameters will be refined by additional test work on bulk ore samples, and the feasibility of electrostatic processing will also be fully evaluated. Hydrogeological field testing programs indicate that there is a low risk of water ingress to the underground workings.

The technical feasibility of developing and operating a large potash mine in northeast Thailand is readily demonstrated by work done to date.

## ECONOMICS

For an initial Somboon mine, the Phase I report has included an economic assessment of the project including preliminary capital and operating cost estimates, leading Golder Associates Ltd. and H.A. Simons Ltd. to conclude that such a project is both technically and economically feasible.

# “ THE ESTIMATED PROJECT RETURN REFLECTS THE LOW OPERATING COSTS AND THE TRANSPORT COST SAVINGS ”

For a two million tonne per annum potash mine, based upon a resource capable of supporting a 25-year mine life and a grade of 24% K<sub>2</sub>O, the main financial parameters were estimated as follows:

The capital cost was projected at approximately US\$395 million with an operating cost of about US\$30 per tonne KCl. Utilizing 80% of net cash flow to service project debt indicated that total debt repayment could be achieved within 3.5 years, giving a project return of some 35%. A 10% discount factor was used, and the capital cost estimate included over \$50 million in contingencies.

The capital cost estimate is within the range previously anticipated for construction of a mine in Thailand. Similarly, transportation and other costs to Map Ta Phut reflect previous estimates such as the International Rail Consultants study, and the overall cost of operations for the mine and mill is comparable to the more efficient potash mines currently operating worldwide. The estimated project return reflects the low operating costs and the transport cost savings resulting from the project's strategic location in Thailand, within the expanding fertilizer markets of southeast Asia and China.

## The Future

By the turn of the century, it is expected that the initial potash mine to be constructed near Udon Thani will be in operation. Certainly, on the basis of programs and studies to date, there appears to be no technical impediment to such a project.

The potential total production capacity for both the Somboon and Udon fields delineated to date, must now be evaluated. Also, the potential for the discovery of additional potash resources within the untested areas of the concession must be investigated and other significant factors such as developing infrastructure, which will exert positive impacts upon the overall development of the potash resources of northeast Thailand, must be investigated.

It is apparent that the Somboon field, with a gross reserve of about 330 million tonnes of sylvinite, can support a two million tonnes KCl per annum operation for 25 years. The Udon field, separate from the Somboon field and in its presently explored stage, appears to have about four times the resource delineated at Somboon. This suggests a very high potential for a series of potash mines to be developed. Subject to regional demand, it would seem that present resources could readily support five or six million tonnes of mineral production per annum for a lengthy period.

Of course, it must be remembered that the present estimated site global resource of some 1.5 billion tonnes of potash occurs on only 30% of the overall concession area. Ongoing exploration programs will assess the potential of the remainder of the area and attempt to increase the already substantial resource.

Another significant development which would have a dramatic positive impact upon a growing potash industry around Udon Thani is the construction of the proposed railroad from Nong Khai, through Laos, to China. Completion of this project would provide a unique ability for APPC to deliver potash, by land transportation, to the major markets in China, in addition to the use of the existing rail transport systems within Thailand and Malaysia.

Not only would this dramatically reduce overall transportation and handling costs, it would enable APPC to avoid delays in deliveries caused by increasing congestion at ports such as Shanghai. This would enhance APPC's operational and marketing advantages over other suppliers to the region.

The future, therefore, is viewed with increasing enthusiasm. Confident that a major potash resource has been discovered in northeast Thailand, and that several large potash mines may be developed, Asia Pacific Resources Ltd. believes that its progression from a junior exploration company to a significant potash producer will be realized within the next few years. The Udon Thani project has the potential to exceed even the initial optimism with which the Company embarked upon the project.

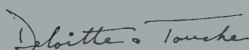
# Auditors' Report

## To the Shareholders of Asia Pacific Resources Ltd.

We have audited the consolidated balance sheets of Asia Pacific Resources Ltd. as at February 29, 1996 and February 28, 1995 and the consolidated statements of loss and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 29, 1996 and February 28, 1995, and the results of its operations and the changes in its financial position for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.



Chartered Accountants

Vancouver, B.C.

April 19, 1996

Asia Pacific Resources Ltd.

## Consolidated Balance Sheets

(Incorporated under the Company Act of British Columbia)  
as at February 29, 1996 and February 28, 1995

	Notes	1996	1995
<b>CURRENT ASSETS</b>			
Cash		\$ 23,146,812	\$ 2,249,687
Accounts receivable		134,944	9,324
Income taxes recoverable		379,840	317,285
Investments	3	-	1,154,498
Prepaid expenses		19,933	10,342
Due from affiliated companies		34,420	13,682
		23,715,949	3,754,818
Capital assets	4	38,157	30,400
Investment in potash concession	5	8,923,018	4,805,857
		\$ 32,677,124	\$ 8,591,075

### CURRENT LIABILITIES

Accounts payable and accrued charges	\$ 427,588	\$ 111,009
Income taxes payable	-	601,068
	427,588	712,077
Non-controlling interest	1,758,286	-
	2,185,874	712,077

### SHAREHOLDERS' EQUITY

Share capital	6	42,468,346	17,679,801
Deficit		(11,977,096)	(9,800,803)
		30,491,250	7,878,998
		\$ 32,677,124	\$ 8,591,075

APPROVED BY THE BOARD



Director



Director

Asia Pacific Resources Ltd.

## Consolidated Statements of Loss and Deficit

years ended February 29, 1996 and February 28, 1995

	1996	1995
Interest income	\$ 797,420	\$ 116,668
Expenses		
Accounting and legal	110,880	38,661
Amortization	8,548	7,088
Consulting	283,774	130,891
Financing costs	223,305	—
Interest and bank charges	9,160	54,176
Office and miscellaneous	175,010	76,870
Promotion and travel	235,516	163,466
Rent	30,886	26,373
Salaries and benefits	356,723	263,882
Transfer fees and filing costs	102,924	47,113
	1,536,726	808,520
Loss before the undernoted	(739,306)	(691,852)
(Loss) gain on sale of investments	(2,045,402)	41,048
Net loss before income taxes	(2,784,708)	(650,804)
Current tax recovery	608,415	317,285
Net loss for the year	(2,176,293)	(333,519)
Deficit, beginning of year	(9,800,803)	(9,467,284)
DEFICIT, END OF YEAR	\$ (11,977,096)	\$ (9,800,803)
Loss per share	\$ (0.05)	\$ (0.01)

## Consolidated Statements of Changes in Financial Position

years ended February 29, 1996 and February 28, 1995

	1996	1995
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss for the year	\$ (2,176,293)	\$ (333,519)
Items not involving cash		
Amortization	8,548	7,088
(Loss) gain on sale of investments	2,045,402	(41,048)
	(122,343)	(367,479)
Change in non-cash operating working capital items	(502,993)	(836,683)
	(625,336)	(1,204,162)
FINANCING		
Issue of share capital	24,788,545	1,575,000
Contributions from non-controlling interest	1,758,286	-
	26,546,831	1,575,000
INVESTING		
Purchase of investments	(1,868,085)	(313,574)
Proceeds on sale of investments	977,181	159,902
Purchase of capital assets	(16,305)	(8,722)
Investment in potash concession	(4,117,161)	(3,484,324)
	(5,024,370)	(3,646,718)
NET CASH (INFLOW) OUTFLOW	20,897,125	(3,275,880)
CASH POSITION, BEGINNING OF YEAR	2,249,687	5,525,567
CASH POSITION, END OF YEAR	\$ 23,146,812	\$ 2,249,687

## Notes to the Consolidated Financial Statements

years ended February 29, 1996 and February 28, 1995

### 1. NATURE OF OPERATIONS

The Company is in the process of financing certain exploration and development expenditures with respect to its potash concession in northeastern Thailand (Note 5). The recoverability of the Company's expenditures on the potash concession is dependent upon the ability of the Company to obtain necessary financing to complete the development and future profitable production or proceeds from the disposition thereof.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

#### a) Investment in Asia Pacific Potash Corporation

The Company previously accounted for its investment in Asia Pacific Potash Corporation (APPC) using the equity method whereby the investment is recorded at cost and adjusted for the Company's proportionate share of net earnings. During the year ended February 28, 1995, the Company incurred expenditures to earn a 75% interest in the APPC (Note 5) at which point the Company effectively acquired control. Accordingly, the Company prospectively consolidated its 75% investment in APPC. All intercompany transactions have been eliminated.

During the year ended February 29, 1996, the Company's investment was diluted to 62.5% upon the exercise of an option by the local Thai shareholder. This increased the local Thai shareholder's interest from 15% to 27.5%. The non-controlling interest in the investment is reflected in the balance sheet at an amount equal to the cumulative contributions of the non-controlling shareholders to APPC at February 29, 1996. These contributions are being used to fund exploration and development expenditures with respect to the potash concession.

#### b) Capital assets

Capital assets are recorded at cost and are amortized using the declining-balance method over the estimated useful life, using annual rates as follows:

Furniture and fixtures	20%
Computer equipment	30%

#### c) Investments

Investments are carried at the lower of cost or quoted market value.

#### d) Foreign exchange

The accounts of the Company's integrated subsidiary have been translated into Canadian dollars using the temporal method. Under this method monetary assets and liabilities are translated at the rate in effect at the balance sheet date. Other balance sheet items, revenues and expenses are translated at the rates prevailing on the respective transaction dates.

#### e) Potash concession

The Company capitalizes all direct exploration and development expenditures until commercial production commences or the investment is abandoned, at which time the costs will be either amortized on a unit-of-production basis or fully charged to operations. Provision will be made, where considered necessary, for permanent declines in the value of the property.

### 3. INVESTMENTS

During the year ended February 29, 1996, the Company acquired an additional 570,000 shares of Canadian Crew Energy Corporation (KNC) to bring its total investment to 1,095,056 shares. KNC holds certain rights with respect to a geothermal concession located in Meager Creek, British Columbia. During the year, KNC was not included in the provincial government's short list in response to KNC's proposal to supply electricity

### 3. INVESTMENTS continued

to the province. As this could cause an indeterminate delay to the project, the Company decided to dispose of its remaining investment in KNC and focus on the development of the potash concession.

### 4. CAPITAL ASSETS

	Cost	Accumulated amortization	1996 Net Book Value	1995 Net Book Value
Furniture and fixtures	\$70,675	\$42,561	\$28,114	\$26,213
Computer equipment	18,029	7,986	10,043	4,187
	<u>\$88,704</u>	<u>\$50,547</u>	<u>\$38,157</u>	<u>\$30,400</u>

### 5. INVESTMENT IN ASIA PACIFIC POTASH CORPORATION/POTASH CONCESSION

During the year ended February 28, 1993, the Company acquired from Crew Capital Corporation, a private company related by directors in common, a right to earn a 75% interest in APPC for \$69,510, representing a reimbursement of development costs incurred to date and a royalty of 1.5% on the Company's initial share (75%) of potash sales once commercial production has begun. APPC holds a potash concession situated in Udon Thani in northeastern Thailand. Effective December 1, 1994, the Company acquired control of APPC as it incurred expenditures in satisfaction of the requirements for earning the 75% interest and consolidates APPC as of that date.

During the year ended February 29, 1996, the Company's interest in APPC was reduced to 62.5% upon the exercise of an option by the local Thai shareholder to acquire an additional 12.5% interest. The Company was reimbursed for the pro-rata portion of the exploration and development expenditures to date.

The Thai government normally restricts foreign ownership of a Thai company to a maximum of 50% unless an exemption is provided. The Udon Thani potash concession

was granted to APPC by the Cabinet of the Thai government and acknowledges the Company's right to hold an interest of up to 75% in APPC.

At February 29, 1996, the local Thai shareholder's interest is 27.5% and the Thai government's interest remains at 10%. All subsequent expenditures are to be funded by the Company (69.44%) and the local Thai shareholder (30.56%). The Thai government will reimburse the other shareholders for its share (10%) of the exploration and development costs from its share of the net profit once commercial production commences.

### 6. SHARE CAPITAL

a) During the year, the Company passed a Special Resolution to increase its authorized share capital from 50,000,000 to 200,000,000 common shares without par value.

b) Changes in issued share capital are as follows:

	Shares	Amount
Balance, March 1, 1994	32,977,777	\$ 16,104,801
Issued for cash on exercise of warrants	875,000	1,575,000
Balance, February 28, 1995	33,852,777	17,679,801
Issued for cash pursuant to private placement	6,000,000	14,742,000
Issued for cash on exercise of stock options	2,234,2000	1,030,045
Issued for cash on exercise of warrants	3,235,000	9,016,500
Balance, February 29, 1996	<u>45,321,977</u>	<u>\$ 42,468,346</u>

During the year, the Company completed a private placement for the issue of 6,000,000 units of the Company for proceeds of

## 6. SHARE CAPITAL continued

\$14,742,000 (net of finder's fees of \$858,000 to an outside director of the Company). Each unit consists of one common share of the Company and one non-transferable share purchase warrant. Two share purchase warrants entitle the holder to acquire an additional common share of the Company at \$3.90 per share until May 5, 1996.

c) As at February 29, 1996, the Company's stock options outstanding were as follows:

Number of common shares	Exercise price per share	Expiry date
174,300	\$1.60	January 12, 1997
150,000	\$6.37	December 4, 1998
20,000	\$7.75	January 23, 1999
80,000	\$2.00	March 24, 1999
1,600,000	\$3.00	April 28, 1999
5,000	\$2.60	November 20, 1999
216,500	\$4.55	October 27, 2000
25,000	\$7.00	December 15, 2000
570,000	\$8.25	February 14, 2001
<u>2,840,800</u>		

d) As at February 28, 1995, the Company had outstanding warrants to acquire 1,640,000 common shares of the Company at \$3.90 per share until May 12, 1996.

In January 1996, the Company entered into an agreement with a third party to provide the Company with financial advisory services. Consideration for these services includes a retainer fee of \$150,000 paid on signing the agreement, a monthly work fee of \$10,000 starting July 1, 1996 and warrants to purchase 1,000,000 common shares of the Company at \$8.00 per share until September 7, 1997. These warrants were issued on March 7, 1996.

## 7. INCOME TAXES

The Company has non-capital losses of approximately \$1,200,000 which may be used to offset future taxable income in Canada and which will commence to expire in the year 2003. In addition, the Company has net capital losses in Canada of approximately \$500,000 which may be used to offset future taxable capital gains.

## 8. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these financial statements include:

a) salaries and automobile allowances of \$219,750 (1995 - \$113,393) for three directors of which \$13,729 (1995 - \$Nil) is included in prepaid expenses.

b) consulting fees of \$119,703 (1995 - \$Nil) paid to companies controlled by outside directors.

## 9. COMMITMENTS

The Company has the following future minimum payments in respect of lease commitments for office space:

1997	\$ 34,592
1998	34,592
1999	34,592
2000	17,296

## 10. SUBSEQUENT EVENTS

Subsequent to year end, the Company:

a) issued the following shares on the exercise of stock options and warrants:

	Exercise Date	Number of common shares	Proceeds
Options	March 1, 1996	300,000	\$ 900,000
Warrants	March 5, 1996	30,000	117,000
Options	March 11, 1996	720,000	2,160,000
Warrants	March 12, 1996	50,000	195,000
Warrants	April 1, 1996	20,000	78,000
Options	April 1, 1996	1,500	2,400
Warrants	April 2, 1996	435,000	1,696,500
Options	April 10, 1996	20,000	32,000
Warrants	April 19, 1996	112,500	438,750

b) granted stock options to purchase up to 100,000 shares of the Company exercisable at \$9.62 per share until March 31, 1999.

## Corporate Information



**Gerald D. Wright -  
President, CEO and Director**

Gerald Wright, a Professional Engineer with a background in water resources and mining, holds a Doctorate of Engineering from Queen's University of Belfast. He is presently a Principal of the Crew Group of companies, holding directorships in the public and private corporations which comprise the Group.



**David Williamson -  
Director**

David Williamson is a Mining Engineer who began his career in Sierra Leone and Malaysia. He has managed two of the world's largest tin mines and was Executive Director of the mining and metals research team at Shearson Lehman Hutton in London. He established his consultancy company (David Williamson Associates) in October, 1989.



**Robert B. Anderson -  
Director**

Robert Anderson graduated from the University of British Columbia, in 1970. An Economic Geologist and Professional Geoscientist, Mr. Anderson has twenty years experience of resource evaluation of precious and base metal projects in Western Canada, Alaska and southeast Asia, as well as commodities such as coal and potash. Mr. Anderson serves as Project Director in Thailand.



**John M. Darch -  
Secretary and Director**

John Darch has had an extensive career in commercial banking and financial management, both in the United Kingdom and Canada. He is presently a Principal of the Crew Group of companies holding directorships in the public and private corporations which comprise the Group.



**Al R. Wahlstrom -  
Director**

Al R. Wahlstrom is a Professional Engineer with twenty years experience in the oil industry and geothermal industry working on exploration, project development and operations management in North America, Europe, North Africa and the Middle East.



**Robert Connochie -  
Director**

Robert Connochie has over 25 years of experience in the international mining industry. His most recent positions have included Chairman and President of Potash Company of America and Vice President, Corporate Development of Rio Algom Limited. He has served on a number of Boards and will provide specialist advisory services related to the ongoing evaluation and development of Asia Pacific's potash project.



**Wayne H. Fallis -  
Director**

Wayne Fallis has considerable experience in international shipping and trading. He is presently President and CEO of Global Marine (Canada) Inc. Global Marine's activities in international shipping and trading span both Europe and the Pacific Rim. He is also a member of the board of private and public companies involved in the mining and fishing industries.



**Head Office**

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800 West Pender Street  
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Facsimile:  
(604) 662-3180

**Overseas Office**

Asia Pacific Potash Corporation (APPC)  
141/26 Shulthai Surawong Tower  
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Bangkok 10500, Thailand

Telephone:  
66 2 237 3443

Facsimile:  
66 2 237 5577

**Registered Office**

10th Floor,  
595 Howe Street  
Vancouver, BC  
V6C 2T5

**Solicitors**

DuMoulin Black  
Barristers and Solicitors  
10th Floor,  
595 Howe Street  
Vancouver, BC  
V6C 2T5

**Auditors**

Deloitte and Touche  
2000 - 2055 Dunsmuir Street  
Vancouver, BC  
V7X 1P4

**Bankers**

CIBC  
400 Burrard Street  
Commerce Court  
Vancouver, BC  
V6C 3A6

**Stock Exchanges**

Vancouver Stock Exchange (APQ.V)  
Toronto Stock Exchange (APQ.T)  
NASDAQ (APQ.CF)  
Stuttgart Stock Exchange (APQ.SG)

**Share Registry**

Pacific Corporate Trust  
830 - 625 Howe Street  
Vancouver, BC  
V6B 3B8

**Asia Pacific Resources Ltd.,**

is a member of the Crew Group of Companies based in Vancouver, BC

Other companies in the group are:

**Botswana Diamondfields Inc.,**

owner of the Rovic Diamond mine in South Africa and southern Africa's premier junior diamond exploration company.

**Canadian Crew Energy Corp.,**

developing Canada's first geothermal power project at Meager Creek, BC.

**South Crofty Holdings Ltd.,**

the majority shareholder in the South Crofty Tin Mine,  
the last producing Cornish tin mine.

## Corporate Information



**Gerald D. Wright - President, CEO and Solicitors**  
Gerald Wright is a Professional Engineer with a special interest in water resources and holds a Doctorate of Engineering from Queen's University of Belfast. He is presently a Principal of the Crew Group of companies, holding directorships in public and private corporations which comprise the Group.



**David Williams - Director**  
David Williams is a Chartered Accountant and a member of the Institute of Chartered Accountants in Canada. He is presently a Principal of the Crew Group of companies, holding directorships in public and private corporations which comprise the Group.



**Robert Anderson - Director**  
Robert Anderson is a Chartered Accountant and a member of the Institute of Chartered Accountants in Canada. He is presently a Principal of the Crew Group of companies, holding directorships in public and private corporations which comprise the Group.



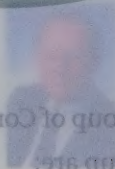
**John M. Darch - Secretary and Director**  
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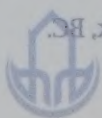
**Robert Connors - Director**  
Robert Connors is a Chartered Accountant and a member of the Institute of Chartered Accountants in Canada. He is presently a Principal of the Crew Group of companies, holding directorships in public and private corporations which comprise the Group.



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the last producing Cornish tin mine, the majority shareholder in the South Crofty Tin Mine, South Crofty Holdings Ltd., developing Canada's first geothermal power project at Mesager Creek, BC. Canadian Crew Energy Corp., premier junior diamond exploration company, owner of the Rovik Diamond mine in South Africa and southern Africa's Borswag Diamonds Inc. Other companies in the group are: a member of the Crew Group of Companies based in Vancouver, BC, Asia Pacific Resources Ltd.



